

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE FINANCIAL	)	
CONDITION OF EAST KENTUCKY POWER	)	CASE NO.
COOPERATIVE, INC.	)	2006-00455

O R D E R

This matter is before the Commission on its own motion. This investigation was commenced on October 27, 2006 "to review the financial condition of [East Kentucky Power Cooperative, Inc. ("EKPC")]."<sup>1</sup> The investigation was based upon a review of data from EKPC indicating that the utility's "operations are producing negative net income since the last quarter of 2004."<sup>2</sup> The Commission's first set of data requests was attached to the October 27, 2006 Order, and three subsequent data requests followed. During the pendency of this investigation, EKPC filed an application for an adjustment of general rates and, due to its deteriorating financial condition, sought interim rate relief.<sup>3</sup> In an Order entered on April 1, 2007, the Commission noted that such extraordinary relief was to be utilized "only where the financial or operational

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<sup>1</sup> Commission's Order dated October 27, 2006 at 1.

<sup>2</sup> Id.

<sup>3</sup> Case No. 2006-00472, General Adjustment of Electric Rates of East Kentucky Power Cooperative, Inc.

condition of a utility has deteriorated to a perilous extent. . . ."<sup>4</sup> In examining EKPC's financial condition, the Commission stated:

On the basis of the foregoing, the Commission hereby finds that: (1) beginning with the unplanned outage of the Spurlock No. 1 unit in July of 2004, EKPC's financial condition has steadily and consistently deteriorated and shows no immediate signs of improvement; (2) due to a significant capital construction program, EKPC has incurred increasing levels of interest expense at a time when it is least able to absorb increasing costs; (3) EKPC's credit-worthiness has deteriorated to the point that its credit score would likely be in the subinvestment grade category; and (4) but for the willingness of [Rural Utilities Service] to forebear from making any declaration of default under the Mortgage Agreement, which would also trigger the cross-default provisions of the Credit Facility, EKPC would be insolvent. Although the Commission recognizes the commitment of EKPC's new management to reduce costs wherever possible, such reductions, at least in the short term, will be insufficient to reverse its credit impairment. The Commission therefore concludes that these findings taken as a whole will result in the credit of EKPC being materially impaired or damaged unless a portion of the general rate increases proposed in EKPC's application is permitted to become effective under the terms and conditions set forth therein.<sup>5</sup>

Without a doubt, this investigation brought to light many of the financial challenges that EKPC was facing and continues to face. Nevertheless, the pending general rate case affords a more suitable proceeding for EKPC's financial challenges to be evaluated. The Commission will continue to keep a keen eye on EKPC's financial condition in the pending general rate case and in other matters before the Commission. At this point, however, any further action in this investigation would be duplicative and an unnecessary waste of time and effort. Accordingly, this investigation will be closed and this case will be dismissed.

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<sup>4</sup> Case No. 2006-00472, Order dated April 1, 2007 at 2.

<sup>5</sup> Id. at 8.

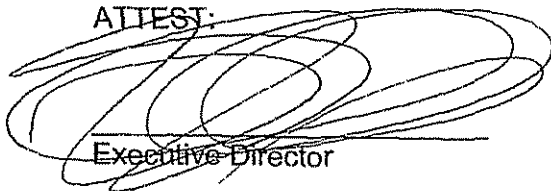
IT IS THEREFORE ORDERED that:

1. This investigation into the financial condition of EKPC is closed.
2. This case is dismissed and removed from the Commission's docket.

Done at Frankfort, Kentucky, this 19th day of June, 2007.

By the Commission

ATTEST:

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

Executive Director

